

CARNEY-NADEAU WATER AND SEWER AUTHORITY
REPORT ON FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
YEAR ENDED JUNE 30, 2007

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name AUTHORITY CARNEY NADEAU WATER & SEWER	County MENOMINEE
Audit Date JUNE 30, 2007	Opinion Date SEPT. 17, 2007	Date Accountant Report Submitted to State: SEPTEMBER 17, 2007	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) RAY PAYMENT, CPA			
Street Address 617 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 			

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RAYMOND L. PAYMENT
CERTIFIED PUBLIC ACCOUNTANT

617 LUDINGTON STREET
ESCANABA, MICHIGAN 49829
PHONE: 906-786-8520
FAX: 906-786-8521

PROFESSIONAL BUILDING
STEPHENSON, MICHIGAN 49887
PHONE: 906-753-4700

September 17, 2007

INDEPENDENT AUDITOR'S REPORT

Carney-Nadeau Water and Sewer Authority
Carney, Michigan

I have audited the balance sheets of the Carney-Nadeau Water and Sewer Authority as of June 30, 2007, and the related statements of revenues and expenditures, retained earnings, and changes in financial position for the year then ended as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance auditing standards generally accepted in the United States of America, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the accompanying general purpose financial statements present fairly the financial position of the Carney-Nadeau Water and Sewer Authority as of June 30, 2007, and the results of their operations for the year then ended in accordance with generally accepted accounting principles applicable to governmental entities in the United States of America.

The financial statements referred to in the foregoing opinion are identified in the contents of this report. My examination was made primarily for the purpose of rendering an opinion on these basic financial statements taken as a whole. The supplementary financial data identified in the contents, although not considered necessary for a fair presentation of the financial position and results of operations, are presented primarily for supplemental analysis purposes. This additional information has been

September 17, 2007

subjected to the audit procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued a report dated September 17, 2007 on my consideration of the Authority's internal control structure and on its compliance with laws and regulations.

A handwritten signature in dark ink, appearing to read "Ray L. Payment", is written over a faint, circular official stamp.

Ray L. Payment
Certified Public Accountant

CARNEY-NADEAU WATER AND SEWER AUTHORITY
BALANCE SHEET
JUNE 30, 2007

ASSETS

PROPERTY, PLANT AND EQUIPMENT (Note 2):

Property, plant and equipment	\$ 1 079 529
Less accumulated depreciation	<u>(221 725)</u>

Net property and equipment	<u>857 804</u>
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CURRENT ASSETS:

Cash	69 217
Accounts receivable	4 527
Special assessments receivable	<u>18 854</u>

Total current assets	<u>92 598</u>
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TOTAL ASSETS	<u>\$ 950 402</u>
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LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS

RETAINED EARNINGS	\$ 87 574
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CONTRIBUTIONS IN AIDE OF CONSTRUCTION - (Note 2)	<u>862 828</u>
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TOTAL LIABILITIES, CONTRIBUTIONS, AND RETAINED EARNINGS	<u>\$ 950 402</u>
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CARNEY-NADEAU WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 2007

OPERATING REVENUES:

Water sales	\$ 17 736
Refunds and reimbursements	162
Hydrant rent	<u>1 500</u>

Total operating revenues	<u>19 398</u>
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OPERATING EXPENDITURES:

Depreciation (Note 2)	10 795
Utilities and heat	3 527
Contract labor	6 450
Professional fees and inspections	1 849
Operating supplies	349
Insurance	3 193
Repairs and maintenance	6 789
Office and administrative	1 525
Vehicle expense	340
Miscellaneous	<u>301</u>

Total operating expenses	<u>35 118</u>
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Operating income (loss)	(15 720)
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NONOPERATING INCOME (EXPENSE)

Interest income	2 056
Depreciation on contributed capital - (Note 2)	<u>10 795</u>

NET INCOME (LOSS)	<u><u>\$ (2 869)</u></u>
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CARNEY-NADEAU WATER AND SEWER AUTHORITY
STATEMENT OF RETAINED EARNINGS
YEAR ENDED JUNE 30, 2007

RETAINED EARNINGS, at beginning of period	\$ 90 443
ADD - Net income (loss) for the period	<u>(2 869)</u>
RETAINED EARNINGS, at end of period	<u>\$ 87 574</u>

CARNEY-NADEAU WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$(2 869)
Non-cash expenses included in net income:	
Depreciation	10 795
(Increase) decrease in accounts receivable	<u>332</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>8 258</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Decrease in Special Assessments receivable	1 250
Increase (decrease) in contributions	<u>(10 795)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(9 545)</u>

NET INCREASE (DECREASE) IN CASH	\$ (1 287)
CASH, BEGINNING OF YEAR	<u>70 504</u>
CASH, END OF YEAR	<u>\$ 69 217</u>

See accompanying notes to financial statements.

CARNEY-NADEAU WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - METHOD OF ACCOUNTING

The Township Water Fund is maintained on a modified accrual basis.

NOTE 2 - PROPERTY, PLANT, AND EQUIPMENT

Fixed assets consisting of water mains and equipment are carried at cost. Depreciation is calculated over the estimated useful life of the fixed assets using the straight-line method. The Township has elected to decrease contributions in aid of construction by the corresponding depreciation on assets purchased by contributed capital.

NOTE 3 - DESCRIPTION OF THE REPORTING ENTITY

This report includes all of the funds and account groups of the Authority. It includes all activities considered by the U.S. Bureau of Census to be part of the Authority.

The Authority provides the water and sewer services contemplated by statute or character.

NOTE 4 - PROPERTY TAX LEVY

The Authority does not have a property tax levy.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS

Deposits are carried at cost. Deposits of the Authority are in one bank in the name of the Carney-Nadeau Water Authority Treasurer. Michigan Compiled laws, Section 124.91, authorized the Authority Treasurer to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligation of the

CARNEY-NADEAU WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS (Continued)

United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreement; banker's acceptance of the United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications; which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 state that public funds may not be deposited in financial institutions located in states other than Michigan. The Authority's deposits are in accordance with statutory authority.

Governmental Accounting Standards Board (GASB) Statement 3 risk disclosure for the Authority's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 69 217
Noninsured	-
TOTAL DEPOSITS	<u>\$ 69 217</u>

NOTE 6 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CARNEY-NADEAU WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority purchases insurance coverage through a carrier. This plan purchases reinsurance for all risks. The Authority's expense is to pay only the annual premium.

RAYMOND L. PAYMENT
CERTIFIED PUBLIC ACCOUNTANT

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ESCANABA, MICHIGAN 49829
PHONE: 906-786-8520
FAX: 906-786-8521

PROFESSIONAL BUILDING
STEPHENSON, MICHIGAN 49887
PHONE: 906-753-4700

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH "GOVERNMENT AUDITING STANDARDS"

President and Members of the Board
Carney-Nadeau Water and Sewer Authority
Carney, Michigan

I have audited the accompanying financial statements of the fund information of the Carney-Nadeau Water and Sewer Authority as of and for the year ended June 30, 2007, which collectively comprise the Carney-Nadeau Water and Sewer Authority's basic financial statements and have issued my report thereon dated September 17, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose or expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Carney-Nadeau Water and Sewer Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize

record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. I consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.


My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings I consider item 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Authority's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the Authority's response and, accordingly, I express no opinion on it.

The report is intended solely for the information and use of the Authority Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Ray L. Payment
Certified Public Accountant

SCHEDULE OF FINDINGS
CARNEY-NADEAU WATER AND SEWER AUTHORITY

Year Ended June 30, 2007

(07-1) Ability to Prepare Financial Statements and Related Note Disclosures

Like entities of similar size, the Authority uses the assistance of the auditor to draft the financial statements and related note disclosures.

The Authority will continue to focus its efforts on continuing education for the President, Treasurer and Clerk. We will keep the funding level for education and training the same, but focus more in the financial preparation area than in the past. Trustees will seek out training to better understand the financial statements and the training funds will be at levels similar to the past. In addition, the Authority will continue to seek the auditor's assistance when necessary on procedural questions and drafting of financial statements and disclosures.